The impact of IFRS 7 on the significance of Financial Instruments disclosure

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The Impact of IFRS 7 on the Significance of Financial Instruments Disclosure: Evidence from Jordan.

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Abstract

Purpose – The main aim of this paper is to investigate Financial Instrument (FI) disclosures provided by Jordanian listed companies under IFRS 7 as compared to those supplied under IAS 30/32.

Design/methodology/approach – A sample of 82 Jordanian listed companies is used in this monograph. A disclosure index checklist was constructed to measure FI information provided by the sample companies.

Findings – The study finds that a larger number of Jordanian listed companies provided a greater level of FI-related information after IFRS 7 was implemented. Specifically, the sample firms provided 47% of the disclosure index items after implementing IFRS 7 as compared to 30% under IAS 30/32. In addition, an analysis of FI disclosure by industry revealed that the highest level of disclosure was provided by firms in the banking sector. Moreover, the analysis of FI disclosure pre- and post- the implementation of IFRS 7 revealed specific aspects of usefulness. In particular, some components of FI disclosure (*Balance Sheet* and *Fair Value*) showed no significant differences within and across sectors post the implementation of IFRS 7 suggesting that the new standard may have enhanced the comparability of such information.

Research Limitations/implications - The results of the current study have a number of implications for policy-makers. First, they provide a great deal of insight for the IASB about the relevance of its standards to countries outside the Western context. In addition,

the findings provide valuable insights for policy-makers in Jordan who are concerned about the implications of mandatory disclosures.

Originality/value – The analysis of FI disclosure in developing countries in general, and in Jordan in particular, has been overlooked by the extant literature and therefore this study is the first of its kind to examine this research issue for a sample of Jordanian firms.

Keywords: Corporate Disclosure, Financial Instruments, IFRS 7, Jordan.

Paper type - Research paper

1. Introduction

Regulatory bodies throughout the world, including the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have sought to introduce accounting standards to deal with Financial Instruments (FIs) disclosure in an attempt to mandate the provision of a minimum level of FI-related information in companies' financial statements. Before accounting regulations were adopted, a number of investigations had revealed that companies were reluctant to publish information about their usage of FIs on a voluntary basis (Mahoney and Kawamura, 1995; Berkman et al., 1997; Grant and Marshall, 1997; Dunne, 2003). Since accounting standards in this area have been adopted, several studies have investigated their impact on the extent of FI disclosure in both developed and developing markets (Edwards and Eller, 1995; Roulstone, 1999; Chalmers and Godfrey, 2000; Chalmers, 2001; Dunne et al., 2004; Woods and Marginson, 2004; Hamlen and Largay, 2005; Hassan et al., 2006; Lopes and Rodrigues, 2006; Rahahleh and Siem, 2009; Strouhal, 2009; Murcia and Santos, 2010). A number of results have emerged from these investigations. For example, the evidence has revealed that corporate disclosure behaviour in this area is mixed with a significant amount of non-compliance among firms. There is a great deal of variation in the amount of FI disclosure provided by companies in both developed and developing countries although disclosure is lower in emerging markets[1] (Hamlen and Largay, 2005; Strouhal, 2009). In addition, large variations exist within FI-related disclosures *per se* with fair value details being the most

[1] Ahmed and Nicholls (1994) suggested that an inadequate regulatory framework and the absence of both strict enforcement mechanisms and a well-established accounting profession represented the main reasons why companies in developing countries did not comply fully with accounting regulations in this area.

widely published while hedge-related data are seldom disclosed in financial statements (e.g. Hassan et al., 2006a, b).

As part of its long-term project on FI disclosure, the IASB has consolidated all FI-related disclosure requirements in International Financial Reporting Standard No. 7 (IFRS 7): Financial Instruments: Disclosure (2005) which became effective on 1st 2007 January. In particular, IFRS 7 has two main requirements, namely: (i) that an entity must provide information about the significance of FIs to a firm's financial position and performance; and (ii) that a firm should supply information about risks arising from FI usage. The main focus of the current paper is on investigating the first requirement of the standard. Specifically, based on an analysis of the financial statements for 2006 and 2007, this study examines the impact of the first-time adoption of IFRS 7 on the information about the significance of FIs to a firm's financial position and performance provided by Jordanian listed companies as compared to that supplied under IAS 30/32. This investigation is motivated by the expectations as well as the concerns about the change when the standard was enacted[2]. In addition, the current evidence about the impact of IFRS 7 is confined to developed countries in general, and European nations in particular (Bischof, 2009); hence, more international evidence is needed before any global trend can be confirmed. Finally, the circumstances in Jordan make it an ideal place for such an investigation. Specifically,

[2] Indeed, expectations about the impact of this standard on FI disclosure were high (Gornik-Tomaszewski, 2006). For example, 79% of the respondents on the IFRS 7 Exposure Draft suggested that the new standard itself was their key source of information about gaining an understanding of the requirements involved and there was no complexity associated with IFRS 7 (ACCA, 2009). In addition, Ernst and Young (2006) argued that there was an expectation that the FI information which would be provided under IFRS 7 would be more useful since management was responsible for the process of preparing such information. However, some concerns were raised about the new standard. For example, the Australian Accounting Standards Board (AASB) stated that the proposed disclosures required by IFRS 7 were particularly onerous; the Board expressed concern that the additional disclosure was a substitute for what may be perceived as an unsatisfactory consolidation framework (AASB, 2011).

the increasing usage of FIs by Jordanian companies as well as the publicity about FI-related financial losses in the press provides a great deal of inspiration for the current study.

The remainder of this paper is organised as follows. Section 2 outlines the institutional setting as well as the accounting and business environment within Jordan. Section 3 reviews the literature and develops the research hypotheses. Section 4 details the research design. Section 5 provides the results of the current investigation. Finally, the implications of the findings are discussed in Section 6.

2. Institutional Setting

Jordan is classified by the World Bank as an upper middle income country with a population of 6.5 million, a per-capita Gross National Income of $4340 and a per-capita Gross Domestic Production (GDP) of $6000 (World Bank, 2013). The real GDP of the country grew steadily over the last two decades peaking in the 1990s at an average growth of 7% a year before falling to 3% over the last five years due to the recent global financial crisis. According to the Index of Economic Freedom, Jordan has the third freest economy in the Middle East and North Africa (MENA) region and the 32nd freest economy in the world.

In order to develop this open-market-economy reputation, the government has implemented a comprehensive economic reforming programme over the last two decades. First, the government established the Amman Stock Exchange (ASE)[3] in 1999 (Al-Omari, 2010). This body[4] commenced its operations in 1999; since then, the number of listed companies

[3] The Jordanian Capital Market was established in 1975 which was called "the Amman Financial Market". However, the market did not commence trading until January 1978; on that date, 51 companies were listed with a market capitalisation of $406 million (Alsharairi and Al-Abdullah, 2008).

[4] The major tasks of the ASE include: (i) the provision of a secure environment for the trading of listed securities and the protection of investor rights; (ii) the development of a transparent and efficient market; (iii)

has dramatically increased reaching around 270 in 2010. In addition, the market capitalisation has risen considerably from $1314 million in 1985 to $4943 million in 2000 before increasing to around $30000 million in recent years[5]. The ASE is split into two markets, namely: the first market and the second market; companies are usually listed in the second market and transferred to the first if certain conditions met[6]. Currently, Jordanian listed firms are drawn from a wide range of industrial sectors including financial, services and manufacturing industries. The financial industry dominates the Exchange with 60% of the ASE's market capitalisation, the service sector ranked second with 15% while the manufacturing sector is third with 25% of the market capitalization. According to ROSC (2004), the Jordanian stock Exchange is considered one of the largest emerging capital markets relative to the country's GDP; the market capitalisation represents over 80% of the GDP (ROSC, 2005).

providing enterprises with a means for raising capital by listing on the exchange; (iv) the provision of modern facilities and effective equipment for recoding trades and the publication of prices; (v) the monitoring and regulating of market trading, in conjunction with the JSC, to ensure compliance with legislation, a fair market and investor protection; (vi) the development and enforcement of a professional code of ethics among members and staff; and (vii) the provision of timely and accurate information by issuers to the market and the dissemination of market information to the public (ASE, 2008)

[5] This large growth in the value of the ASE is due to a number of economic reforms which has initiated by Government. For example, the government entered into a number of international and national agreements: (i) an agreement with the International Monetary Fund; (ii) a commercial agreement with the US in 1998; (iii) the establishment of a number of the Qualifying Industrial Zones; and (iv) joining the World Trade Organization in 2000 (ASE, 2008). In addition, the Government launched a privatization program in the early of 1990s[5]. As a result of this privatization program, the government's participation in the provision of goods and services decreased; the involvement of the State in public shareholding companies declined to less than 6%[5] (Al-Kheder et al., 2009). The major privatization transactions that have occurred and the sizable revenues that have been raised with the considerable investment by the private sector; specifically, over $2.0 billion was raised by the State and over $1 billion was invested in the country by foreign investors (Executive Privatization Unit, 2007).

[6] According to the Securities Act No. 76 of 2002, the company will be transferred to the first market if it meets the following conditions: (i) it should be listed for at least one full year on the Second Market; (ii) the company's net shareholders' equity must not be less than 100% of the paid-up capital; (iii) the company must make net pre-tax profits for at least two fiscal years out of the last three years preceding the transfer of listing; (iv) the company's free float to the subscribed shares ratio by the end of its fiscal year must not be less than 5% if its paid-up capital is 50 million Jordanian Dinars or more and 10% if its paid-up capital is less than 50 million Jordanian Dinars; (vi) the number of company shareholders must not be less than 100 by the end of its fiscal year; (vii) the minimum days of trading in the company shares must not be less than 20% of overall trading days over the last 12 months; and (viii) at least 10% of the free float shares must have been traded during the same period.

In the early of 1990s the Government launched a privatization program. As a result, the government's participation in the provision of goods and services decreased; specifically, the involvement of the State in public shareholding companies declined to less than 6%[7] (Al-Kheder et al., 2009). This reduction in the government's stake has led to increase the market capitalization of the ASE to over $35 billion in 2008, as State-owned shares were offered for sale to the public **(**Executive Privatization Unit, 2007**).** Specifically, over $2.0 billion was raised by the State and over $1 billion was invested in the country by foreign investors (Executive Privatization Unit, 2007).

In addition, the Jordanian government has entered into a number of international business agreements. For example, Jordan signed Free Trade Agreements (FTA) with the US, the European Union, Canada, Singapore, Malaysia, Tunisia, Algeria, Libya, Algeria and Turkey in the period between 1995 and 2005 . In addition, Jordan is a member in a number of international economic organizations such the World Trade Organization, the Euro-Mediterranean Free Trade Agreement Group and the Greater Arab Free Trade Agreement Group (ASE, 2008).

2.1 The Financial Reporting Framework in Jordan

The legal framework for corporate disclosure in Jordan is represented by various Company and Security Acts. The 1964 Company Act was the first piece of legislation which included guidelines for the preparation of financial statements. This was followed by the 1989 Company Act which reaffirmed the requirements of the 1964 Company Act as well as expanding the corporate disclosures which companies had to supply. Although both Acts required companies to prepare a profit and loss account and a balance sheet according to the Generally Accepted Accounting Principles (GAAP), neither of them defined or

[7] Prior to the privatisation programme, the government had acquired up to 70% of listed public shareholding firms in Jordanian capital market (Al-Akra et al., 2009).

specified the GAAP to be used. In 1989, the Jordanian Association of Certified Public Accountants (JACPA) was established as a local professional accounting body. However, no local accounting standards were created for them to apply. Therefore, JACPA played an important role in facilitating the adoption of International Accounting Standards/International Financial Reporting Standards (IASs/IFRSs) within Jordan; by 1990 it recommended that all Jordanian companies should adopt IASs. However, JACPA was unable to force listed companies to comply with this recommendation. The absence of any legal or professional requirement to implement IASs allowed firms to choose whichever GAAP that they wanted to adopt.

In 1997, the Company Act No. 22 was introduced. The new Act covered a wide range issues relating to corporate disclosure requirements. In particular, it stated that Jordanian listed companies' financial statements should be prepared in accordance with IAS/IFRS. The Securities Act No. 23 of 1997 reaffirmed that Jordanian listed companies should apply IAS/IFRS in the preparation of their financial statements with penalties including fines and delisting for non-compliance. Indeed, this Act was a watershed for corporate disclosure in Jordan since it provided Directives for Disclosure, Auditing, and Accounting Standards. Furthermore, this Act provided for the establishment of: (i) the Jordan Securities Commission (ASE, 2005); (ii) the Securities Depository Centre; and (iii) the Amman Stock Exchange (ASE). In addition, the Act provided the first guidelines on the corporate governance structure of Jordanian listed companies; it sought to protect the rights of shareholders and highlight responsibilities of the board of directors in the new rules (Hutaibat, 2005). The Act mandated that all public shareholding firms should have an audit committee comprised of three non-executives directors; it required this committee to meet at least four times a year in order to examine and discuss the firm's internal control

mechanisms including the work of both the external and internal auditors (ROSC, 2004). This committee also has responsibility for monitoring compliance with the requirements of various Company and Securities Acts (e.g. corporate disclosure).

Jordan has traditionally been classified as a code law country (ROSC, 2005) where (i) the financing of companies has largely involved bank debt (Abu-Nassar, 1993); (i) the basic shareholder rights to participate in company decisions and vote at the annual general meeting are not strong; and (i) the security associated with the registration of ownership is weak (Haddad, 2005). However, as a result of the many economic reforms discussed in this section (e.g. the establishment of the capital market, the initiation of the privatization program, joining several Free Trade Agreements, the introduction of a number of business laws and the adoption of IAS/IFRS) the legal system of country has developed. Specifically, Al-Akra et al. (2009; 2010; 2012) concluded that following to these referendums, the Jordanian legal system has shifted towards a common law system; investor protection is improved, the capital market presents the main source of financing and users are provided with more timely public information (Al-Akra et, al., 2010; 2012).

This major change to the Jordanian business environment over the last few decades provides one motivation for undertaking the current investigation. In addition, Jordan represents a very different context as compared to the Western settings which previous research in FI area has focused on. Further, the importance of FIs in general, and derivatives in particular, in Jordan has increased over the last few years providing another rationale undertaking the current study. Indeed, the corporate usage of derivatives among Jordanian firms (especially large companies) has risen dramatically (Al-Rai, 2004). Indeed, the growing reliance of the Jordan economy on external exports has forced Jordanian

companies to increase their usage of FI products (mainly derivatives) in order to maintain the stability of their cash flows and smooth revenues (Siam and Abdullatif, 2011). In addition, the misuse and the abuse of FIs (both derivative and non-derivative) was a key factor that led to the collapse of one of the largest Jordanian banks in 1990, the Petra Bank (*The Judicial View*, 2008). In particular, the audits carried out by Arthur Andersen revealed that the bank's assets had been overstated by $200 million as a result of trading in derivative contracts such as foreign exchange and equity instruments (The Guardian, 2003). Furthermore, the audits confirmed that transactions relating to this loss were approved by the bank's top management (The Guardian, 2003).

3. Literature Review and Hypotheses Development

Disclosure about the usage of FIs is an important part of financial reporting research (Bischof, 2009). However, DeMarzo and Duffie (1995) have argued that this topic has always been seen as problematic for companies because of the commercial sensitivity involved. This sensitivity has risen over time as the usage of FIs (especially derivatives) has increased[8]. The extant literature has highlighted a number of factors that have led to this explosive growth in the usage of FI. In particular, the finance industry has been successful in creating a variety of new Over-The-Counter (OTC) and exchange-traded products that are designed to suit the specialist needs of certain firms (Froot et al., 1993; Li and Gao, 2007). In addition, deregulation of the financial services industry, increased competition among financial institutions, changes in tax laws and developments in information technology have also contributed to an increase in the usage of these products (Jacque, 2010; Gebhardt, 2012). Indeed, prior studies have documented that a variety of derivative instruments have been used by companies (e.g. options, forwards, futures, swaps, OTC

[8] Specifically, Derivatives Market Activity Reports indicate that derivatives usage increased from $100,000 billion in 2001 to $700,000 billion in 2010 (Bank for International Settlements, 2010).

products) for different purposes such as hedging, earnings management and/or speculation (Bodnar et al., 1998; Saito and Schiozer , 2005; El-Masry et al., 2006; Yakup and Asli, 2010; Naito and Laux, 2011). However, most firms claim to use FIs for hedging purposes (Mallin et al., 2001). Despite this claim by firms that they mainly use FIs to hedge their financial exposures, the last two decades have witnessed many financial scandals and corporate collapses which have been attributed to the misuse of FI (Jacque, 2010). As a result, the level of public concern about the use of such products and the control of their associated risks has increased (Beresford, 1997; Ighian, 2012). Hence, the main accounting regulators, including the FASB and the IASB, have sought to issue new accounting standards and tighten regulations in order to tackle this dilemma (Richie et al., 2006). The objective of these pronouncements is to enhance users' understanding of the significance of FIs for a firm's financial position and performance (Ighian, 2012). In this regard, Chau et al. (2000) have argued that, at the time of these scandals, accounting for FI needed to consider three major issues which were recognition, measurement and disclosure. The main focus of the current study is to examine FI disclosure provided by Jordanian listed firms under IFRS 7 as compared to that supplied under IAS 30/32; Jordan has applied IAS/IFRS since 1997.

3.1 Accounting Standards Concerning FI Disclosure Issued by the IASB

The IASB introduced several accounting standards to deal with FI disclosure, namely: IAS 30, IAS 32 and IFRS 7. The IASC issued IAS 30: Disclosures in Financial Statements of Banks and Financial Institutions in 1990 and the standard became effective in 1991. This standard prescribed a specific presentation for disclosures about FIs by financial institutions in order to provide users with appropriate financial statement information about how these organisations managed and controlled liquidity as well as solvency risks. Indeed, it required

full disclosure on a broad spectrum of risks associated with the operations of banks (IASC, 1990). In 1995, the IASC issued IAS 32: Financial Instruments: Disclosure and Presentation which dealt with most types of FIs (recognised and unrecognised)[9]. The main objective of IAS 32 was to ensure that companies provided information that enhanced users' understanding of the impact of FI usage on an entity's financial position and performance (IASC, 1995, Para. 1). However, IAS 32 and IAS 30 did not encompass all types of FI and their associated risks (Conti and Mauri, 2006); they only referred to specific FI risks, namely: interest rate risk and credit risk. In this regard, Richie et al. (2006) argued that it was widely recognised that accounting standards and disclosure practices for FIs needed to be improved.

More recently, the IASB issued *IFRS 7* in 2006; IFRS 7 has replaced FI disclosure requirements which had previously been contained in both IAS 30 and IAS 32 (IASB, 2006). IFRS 7 requires companies to publish their FI information under specific categories; irrespective to whether they relate to derivatives or non-derivatives[10]. IFRS 7 applies to all listed firms (financial and non-financial); it covers all types of FIs as well as the risks arising from their usage (IASB, 2006). In fact, IFRS 7 has considerably expanded the scope of FI disclosure relative to the requirements of previous standards (Coetsee, 2010). In particular, it requires firms to provide two main types of FI disclosure. First, an entity must supply information about the significance of FIs in their organisation: (i) accounting policy disclosures; (ii) balance sheet disclosures; (iii) income statement disclosures; (iv) hedging

[9] There were a number of FIs not covered by IAS 32. These exceptions were: (i) share-based payments (IFRS 2); (ii) interests in subsidiaries (IAS 27); (iii) interests in associates (IAS 28); (iv) interests in joint ventures (IAS 31); (v) employers' right and ligations under employee benefits plan (IAS 19); (vi) rights and obligations arising under insurance contracts (IFRS 4); and (vii) contracts for contingent consideration in a business combination (IFRS 3).

[10] These categories are: (i) FI at fair value through Profit or Loss - held for trading; (ii) FI at fair value through profit or loss – designated; (iii) Held-to-maturity investments; (iv) Available-for-sale financial assets; (v) Loans and receivables; and (vi) Financial liabilities measured at amortised cost

disclosures; (v) fair value disclosures; and (vi) other disclosures (IFRS 7, Para. 7-29). Second, an entity must provide information about the nature and extent of the risks arising from the use of FIs including: (i) qualitative disclosures about risks associated with the FIs used; and (ii) quantitative disclosures of risks associated with FI usage including all types of risks namely: credit risk, liquidity risk and market risk (IASB, 2006, Para. 30-42). As discussed earlier in this paper, the current investigation focuses on the first part of IFRS 7.

IFRS 7 represents one of the most significant changes in how firms account for FIs since the introduction of IAS 39 (Conti and Mauri, 2006). It makes a number of changes to FI-related requirements which had previously been in place. For example, the standard takes a management approach whereby information in financial statements about FIs must be based on data provided internally to the entity's key management personnel (Ernst and Young, 2007). It was thought that this development would help integrate the internal and external reporting systems within firms. Furthermore, the standard applies for all companies irrespective of their industry or size; the significance of FIs to an entity's financial position and performance is the main determinant of FI disclosures. Indeed, Gornik-Tomaszewski (2006) has argued that the most important of the changes mandated by IFRS 7 is that the level of disclosure is determined by the extent to which an entity uses FIs rather than its industrial sector. Finally, IFRS 7 adds new disclosure requirements about FIs to those that were mandated under previous standards: namely, (i) disclosure about the credit quality of financial assets that are neither due nor impaired; (ii) various disclosures for financial assets that are either due or impaired; (iii) information about the carrying amounts for each class of FI; (iv) details on the ineffectiveness of any hedge; and (v) comparative fair value numbers about FI (Gornik-Tomaszewski, 2006). Thus, it was

expected that IFRS 7 would have a sizeable impact on the usefulness of FI disclosure provided in companies' financial statements.

3.2 Literature Review and Hypotheses Development

A growing body of empirical accounting research has investigated FI disclosure in several countries such as the US (e.g. Goldberg et al., 1994; 1998; Palmer and Schwarz, 1995; Mahoney and Kawamura, 1995; Edwards and Eller, 1995; Hamlen and Largay, 2005; Zhang, 2009), the UK (Dunne et al., 2004; Woods and Marginson, 2004; Bamber and McMeeking, 2010), other EU countries (Lopes and Rodrigues, 2006; 2008; Bischof, 2009; Bamber and McMeeking, 2010; Prihatiningtyas, 2011; Gebhardt, 2012), Australia (Berkman et al., 1997; Chalmers and Godfrey, 2000; Chalmers, 2001) and Malaysia (Hassan et al., 2006). Table 1 summarises key features of these studies. An inspection of this table shows that most of these studies have (i) focused on the information provided about derivative products and overlooked other types of FIs; (ii) analysed disclosures in the annual reports of companies; and (iii) used either the disclosure index technique or the content analysis method. A comparison of the findings from these studies is not easy. For instance, the investigations use different sample sizes ranging from a few companies [only 10 annual reports for Edwards and Eller, 1995] to 600 firms (Gebhardt, 2012). In addition, some of the studies are sector-specific and concentrate on banking (Edwards and Eller, 1995), industrial companies or firms from manufacturing industry (Hassan et al., 2006). Others are more general and include both financial and non-financial firms (Lopes and Rodrigues, 2006; 2008). Furthermore, these studies examine the impact of a variety of accounting standards on FI disclosure. Nevertheless, despite these differences, a number of findings emerge from an analysis of these investigations.

Panel A of Table 1 lists US studies concerning FIs disclosure. In general, these studies have concluded that the introduction of new accounting standards covering FI disclosure has resulted in more detailed information being provided. Prior to the existence of FI-related regulation, Goldberg et al. (1994) examined the impact of SFAS 105 on FI-related hedge information. They found that SFAS 105 enhanced the hedging information provided by forcing firms to publish significant details about their hedging activities. In 1991, the FASB issued SFAS 107 which concentrated on the fair value of FIs. Goldberg et al. (1998) compared disclosures about foreign exchange derivatives under SFAS 105 and SFAS 107. They pointed out that (i) a larger number of companies publish FI-related information, (ii) there was widespread compliance with the requirements of SFAS 105 and SFAS 107, and (iii) disclosures varied greatly in terms of both form and content with inconsistency in terminology being particularly evident.

In 1994, FASB issued SFAS 119 in 1994. As a result, a number of studies were dedicated to investigating its influence (Edwards and Eller, 1995; Mahoney and Kawamura, 1995; Kawamura, 1995; Herz et al., 1996). These studies concluded that more entities complied with the disclosure requirements of the standard outlining FI disclosure requirements. They suggested that SFAS 119 was moderately effective, allowing the readers of financial statements to make judgments on whether FIs could have a material impact on a firm's financial position and performance. Further, they documented that the amount of detail presented and the clarity of the information (both quantitative and qualitative) provided in annual reports about derivative activities had greatly improved for the whole sample with the introduction of SFAS 119 relative to what had been supplied beforehand. However,

they pointed out that some firms' disclosures appeared incomplete, particularly with respect to trading matters and hedges of anticipated transactions[11].

Panel B of Table 1 lists the UK studies on the impact of accounting standards for FI disclosure (Woods and Marginson; 2004; Dunne et al., 2004). The evidence about the impact of FRS 13 is mixed. For example, Woods and Marginson (2004) investigated the impact of FRS 13 on UK banks' derivatives disclosures. The findings revealed that the narrative disclosures provided were fairly generic in nature, while the numerical data was either incomplete or misleading for users. In a follow-up study, Dunne et al. (2004) investigated the implementation of this standard for a larger sample of FTSE 100 non-financial companies and found that the implementation of FRS 13 contributed to an increase in derivatives-related disclosure in the sampled annual reports. Responding to the adoption of IFRS GAAP by UK firms in 2005, Bamber and McMeeking (2010) investigated the impact of IFRS 7 in the first year of its adoption by FTSE 100 non-financial companies, using content analysis. The study found that the adoption of IFRS 7 caused companies to publish more accounting information (especially qualitative details) about FI usage which may have been useful for decision-makers in the assessment of a firms' overall strategy for managing these products.

A significant body of research has examined the impact of accounting standards on FI disclosure in Australia (see Panel C of Table 1). Before any specific rules on FI information existed, Berkman et al. (1997) compared disclosure practices among New Zealand and

[11] Following the introduction of SFAS 133, Bhamornsiri and Schroeder (2004) and Hamlen and Largay (2005) investigated the derivative reporting practices of 30 high profile companies included in the Dow Jones Industrial Average Index. They found that the amount of disclosure provided about derivatives had increased significantly after SFAS 133 was implemented. Specifically, 90% of sample firms complied with SFAS 133's requirements; as a result, financial statement users were able to assess these company's strategies for using derivative products.

Australian companies. They concluded that companies in both countries reported relevant information in their annual reports, but there was far more disclosure provided by New Zealand firms than by their Australian counterparts. The authors argued that this was largely due to the mandatory reporting requirements of Financial Reporting Standard No. 31 (FRS 31) in New Zealand compared to the voluntary proposals contained within Exposure Draft No. 65 in Australia. Following the enactment of the AASB 1033 in Australia in 1996, FI disclosure requirements became mandatory; this change gave rise to a number of empirical studies which investigated the level of associated FI disclosure (Chalmers and Godfrey, 2000; Chalmers, 2001; Hassan et al., 2006a). The findings from these studies indicated that although more companies provided a higher level of FI disclosure, the quality of the information disclosed was less than satisfactory. In particular, the authors noted that: (i) the information was not easy to find as its positioning in the financial statements' notes varied within a firm and across firms; and (ii) there was considerable variation in disclosure phraseology. They suggested that these flaws hindered the understandability, comparability, and consistency of FI information in the financial statements. Generally, the study raised a number of major weaknesses concerning existing FI disclosure requirements in Australia: (i) the lack of accounting policy disclosures relating to specific FIs; (ii) the incompleteness of fair value disclosures about FIs[12]; and (iii) the vagueness of many disclosures.

Panel D of Table 1 summarises key features of studies on FIs disclosure conducted in EU countries (Lopes and Rodrigues, 2007; 2008; Bischof, 2009; Gebhardt, 2012). For example, Lopes and Rodrigues (2007) investigated existing measurement and disclosure practices for FIs among Portuguese listed companies to gauge the extent of their compliance with IAS

[12] Although firms disclosed information about the fair value of financial instruments, they seemed reluctant to reveal the underlying assumptions and methods of measurement underpinning these disclosures.

32 and IAS 39. In general, the study found that Portuguese disclosure practices for FIs differed substantially from the requirements in IAS 32/39. In particular, they noted that the overall level of FI disclosure among their sample firms was less than satisfactory; the non-disclosing percentage was 27% for financial firms and 95% for non-financial firms. In addition, they discovered that fair value measurement of derivatives was adopted by most derivative users (73%). The authors suggested that the mandatory adoption of more stringent standards (IAS 32/39) would probably have a positive impact on the FI-related information disclosed by Portuguese firms. In a comprehensive European study of this topic, Bischof (2009) investigated the impact of the first time adoption of IFRS 7 on FI disclosure using annual reports for 171 banks from 28 European countries. The study found that disclosure level about FIs (both qualitative and quantitative) among European banks increased in the financial statements. Specifically, she found that while financial statement information had increased from 69 pages before IFRS 7 adoption to 75 pages afterwards, risk management reporting within the financial statements accounted for most of this change; it increased from 13 to 21 pages; both differences were significant with a p-value of less than 0.01.

Empirical studies on FI disclosure in developing countries are very scarce (Hassan et al., 2006). The main exception to this generalisation relates to a number of studies conducted in Malaysia (Hassan et al., 2006b), the Czech Republic (Strouhal, 2009), and Brazil (Murcia and Santos, 2010) which are explained in Table 1. The findings indicate that even though companies do provide information about their FIs in their financial statements, there is a gap between what is supplied and the requirements of IASB's standards such as IAS 32 and IAS 39. Hence, they have concluded that the adoption of IAS/IFRS may have a positive impact on both quantity and quality of FI disclosure. To date, the only study about FI

disclosure in Jordan has been conducted by Rahahleh and Siem (2009). They investigated the impact of applying IAS 32 by Jordanian commercial banks from the perspective of auditors, preparers, and investors. The study distributed a questionnaire survey (5-point Likert scale) to interested parties and obtained replies from 89 auditors, 84 preparers and 78 institutional investors with an overall response rate of 84%. The study highlighted that there was a consensus among these groups about the importance of IAS 32 for Jordanian commercial banks with mean values of 4.2, 4.1 and 4.0 being documented respectively. The results suggested that the financial statement disclosures were more comparable and consistent as a result of applying IAS 32; the needs of financial statement users were better satisfied after IAS 32 was implemented. In addition, the study found that IAS 32 significantly enhanced the presentation of, and improved the disclosure of, FI information in the financial statements. The authors suggested that the level of agreement among these stakeholder groupings indicated that the information which had to be published according to the standard fulfilled the expectations of the financial statement users.

In conclusion, the general findings of the extant FI-related disclosure literature indicate that the introduction of new accounting standards have resulted in: (i) an increase in the number of companies supplying FI disclosure (Edwards and Eller, 1995; Chalmers and Godfrey, 2004; Chalmers, 2001; Hassan et al., 2006b); and (ii) an improvement in the level of corporate FI disclosure provided (Roulstone, 1999; Chalmers and Godfrey, 2000; Chalmers, 2001; Dunne et al., 2004; Woods and Marginson, 2004; Hamlen and Largay, 2005; Lopes and Rodrigues, 2006; Strouhal, 2009; Murcia and Santos, 2010).

However, the vast majority of this literature has concentrated on developed countries which have a very different contextual background compared to developing countries. In this

respect, Cooke and Wallace (1990) and Belkaoui (1983) have argued that accounting is the product of its environment, so accounting policies and techniques are influenced by the contextual factors[13] within a country. Indeed, the extant literature has highlighted the crucial role played by the external environment on a country's accounting system (Cooke and Wallace, 1990). With respect to Jordan, the country has undergone significant changes over the past few decades. This makes Jordan an ideal place to undertake the current investigation. First of all, Jordan went through major and dramatic economic developments which resulted in significant growth of the economy (e.g. market capitalization and the GDP). In particular, the establishment of the Jordanian capital market in the early of 1990s and reorganization of this market in 1999, the initiation of the privatization program in 1990s and the introduction of several business laws are real instances of these developments. Moreover, Jordan has experienced dramatic changes in accounting regulations. In particular, the adoption IAS/IFRS in Jordan since 1997 presents a very important development of the accounting practices in Jordan; a Jordanian study needed therefore to shed light on recent enforcement mechanisms that have been introduced and their effectiveness in improving mandatory disclosure compliance. Finally, recent accounting research postulates that culture plays an important role in developing and changing the accounting and disclosure practices of a country (Jaggi, 1975; Hofstede and Bond 1984; Nobes, 1984; Gray, 1988). Indeed, Riahi-Belkaoui and Picur (1991) argued that accounting is determined by culture which accounts for the lack of consensus across different countries as to what represents appropriate accounting methods. With respect to Jordan, its culture is based on a strong Arab tradition although the impact of Western ideas has grown over recent decades (Al-Akra et al., 2010). Further, Jordan is a collective society

[13] Studies in this area have identified a number of factors that can affect a country's accounting practices: namely, (i) the political and economic system; (ii) the legal system; (iii) the accounting profession; and (iv) the culture (e.g. Mueller, 1967; Frank, 1979; Doupnik and Salter, 1995; Nobes, 1998; Gernon and Meek, 2001; Ashraf and Ghani, 2005; Mashayekhi and Mashayekh, 2008).

characterized by Islamic values, with a preference for strong social links. These links have encouraged secrecy (Piro, 1998). Hence, it is anticipated that the behavior of Jordanian firms will have been affected by this cultural factor when preparing the accounting information.

These changes and characteristics of Jordan economy provide a great deal of rationales to examine FI disclosure in the context of Jordan. Hence, the current study aims to investigate the impact of the introduction of IFRS 7 on FI disclosure in a developing country (Jordan) which has its unique background that differs greatly from that of developed countries where most previous studies have been conducted. Specifically, the current study aims to examine the impact of IFRS 7's introduction on FI disclosure provided by Jordanian listed companies as compared to that supplied beforehand. The above discussion of the literature presented as well as the characteristics of Jordan lead us to postulate the following two hypotheses:

H1: The proportion of Jordanian listed companies providing FI disclosure has increased significantly following the introduction of IFRS 7.

H2: The level of FI disclosure has increased significantly following the introduction of IFRS 7 compared to information provided previously by Jordanian listed companies.

With respect to the industry membership, Wallace et al. (1994) argued that a company's sector can affect the corporate reporting culture of its constituent companies; they suggested that policies on financial information disclosure differ across sectors. In fact, the extant literature has provided mixed evidence about the impact of industry on the extent of corporate disclosure. For example, Cooke (1989) found that manufacturing companies disclosed more information than their counterparts in other sectors. Indeed, the extant literature on corporate disclosure in general, and on FI disclosure in particular, has focused

on whether there is a relationship between corporate disclosure and industry membership. The current study goes beyond this focus by analyzing the differences in the behavior of risk-related disclosure within and across industries; this analysis is employed for both financial and non-financial companies.

The sample of the current study is drawn from four sectors which are banks, financial services, services and manufacturing companies. The current study assumes that the type of industry that a company is located in can explain some of a firm's behavior in relation to corporate FI disclosure. To this end, the empirical section examines FI-related disclosure on a sectoral basis pre-and post-the implementation of IFRS 7 by examining both percentage changes and results from statistical tests which investigate whether changes in risk information were significant within and across sectors. Hence, the final hypothesis of the current study is proposed:

H3: There are significant differences in FI disclosures by Jordanian listed companies within and across sectors.

4. Research Design

4.1 Sample Firms

The present paper investigates impact of IFRS 7 on FI disclosure for a sample of Jordanian listed companies. The sample initially consisted of 227 quoted companies which issued annual reports during the period of the current investigation. However, some of these firms had to be excluded for various reasons. First, the study omitted companies listed in the second market (132 firms). The second market in Jordan represents firms whose shares are not actively traded in the ASE; the volume of transactions in these securities is quite small (ASE, 2007); this means that the demand for corporate information about such firms is low;

thus, they tend to disclose relatively little information[14]. Second, the study excluded insurance companies listed on the first market from the sample (7 companies) because they comply with special regulations which are issued by the Jordanian Insurance Commission rather than IAS/IFRS. Third, the study also eliminated six additional companies from the sample; two of these companies had incomplete financial statements while the remaining four had no annual reports available. The final sample of the current study includes 82 financial and non-financial companies including 12 banks, 26 financial services firms, 18 services companies, and 26 manufacturing firms[15].

4.2 Measurement of FI Disclosure

The extent of FI disclosure provided by Jordanian listed companies is measured using a disclosure index. The disclosure index was constructed by the researchers based on the requirements (FI disclosure items) of accounting standards considered (IFRS 7, IAS 32, IAS 30) in the current study. In addition, the study consulted the Big four accounting firms' checklists of these standards as well as the extant literature on FI disclosure to ensure that the checklist was comprehensive (e.g., Bischof, 2009; Bamber and McMeeking, 2010). Thus, the number of items included in the current study's index was determined by the standards themselves and subsequently assessed by the researchers[16]. The resulting

[14] A pilot study examined a sample of 10 companies from the second market (20 annual reports) and found that: (i) their annual reports were incomplete and FI disclosure in their financial statements was limited to simple FIs (e.g., loans, receivables, payables); and (ii) no disclosures were provided about hedge and risk activities associated with FI as IFRS 7 requires. For example, a detailed reading of the annual report for one firm revealed that "their activities are locally limited, so they are not exposed to any kind of risks, hence, they do not need hedge and risk instruments" (Annual Reports of ALFA Co., 2007). The possible bias from including such companies which might publish little or no information in their annual reports is therefore avoided.

[15] These companies are listed on the first market of the ASE and used to compute the general index of the Jordanian stock exchange (ASE, 2008). In addition, the equities of the companies in the sample of the current study are heavily traded— on average, share prices change for these companies' shares on 80% of the days when the exchange is open (ASE, 2008).

[16] A number of steps were followed when constructing the disclosure index in this study to ensure that the index encapsulates all FI information included in the annual reports of the Jordanian listed companies. To this end, a pilot study of 8 firms was undertaken for both 2006 and 2007 years (16 annual reports). The findings of

checklist included 39 items spread across 6 categories of information (See Appendix 1). Each company's annual report was scanned for these items and measured using an un-weighted disclosure index. Aly et al. (2010) noted that a majority of studies in this field have used an un-weighted disclosure index. Indeed, Cooke (1989) has argued that un-weighted indices are more suitable research instruments in corporate disclosure studies when the research is focused on all groups who use a company's annual report rather than the requirements of any specific user category. Hence, the level of FI disclosure (FID) is measured using the following equation:

$$FID_j = \sum_{i=1}^{n} L_i \qquad \textbf{[1]}$$

where L is one if the item i is disclosed and zero otherwise; n is number of items which has an upper limit of 39 in the current study. Companies are not penalised for non-disclosure of information about items which were not relevant to their circumstances; hence, the percentage of overall FI disclosure level (POFID) for each company is measured as follows:

$$POFID_j = \sum_{i=1}^{n} L_i / N_i \qquad \textbf{[2]}$$

N is the total number of applicable to each firm.

In order to increase the reliability of the disclosure index, the current study performed the test of internal consistency for both the items and the categories included in the index. The results suggest that there is a high level of internal consistency (reliability) in the disclosure index as a measure of FI information provided by Jordanian listed companies in the current

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the pilot study revealed that the disclosure index was an appropriate vehicle to pick up the relevant FI information provided by the sampled firms. Prior to the analysis stage, two researchers applied individually the disclosure index to the annual reports of a number of companies and differences were noted and reconciled.

research[17]. In order to assess the validity of the current study's disclosure index, a construct validity test was performed by examining the correlation between the percentage of the overall FI disclosure and a number of firm characteristics, namely: firm size, industry, auditor, profitability and leverage. The results of the correlation test between FI disclosure and these firm characteristics were consistent with the findings from the extant literature indicating the disclosure index of the current study is validly constructed[18].

4.3 Statistical Analysis Employed

A number of statistical tests have been carried out by the current study in order to examine the hypotheses proposed; both parametric and non-parametric measures are employed. First, a Wilcoxon Rank test (non-parametric) and the Paired-Samples T-test (parametric) are employed to test whether there are significant differences between the proportions of Jordanian listed companies disclosing FI information (1st hypothesis) and to examine whether there are significant differences between the levels of FI disclosure provided (2nd hypothesis) pre- and post- the introduction of IFRS 7. Second, a Kruskal-Wallis test and its parametric equivalent (the One-Way ANOVA) are employed to investigate whether FI disclosure provided by Jordanian listed companies varies within and across industry (3rd hypothesis).

5. Results and Discussion

5.1 The proportion of Companies Disclosing FI disclosure

[17] The results indicated that the coefficient for Cronbach's alpha was 0.80 (pre-IFRS 7) and 0.89 (post-IFRS 7) with the disclosure items, and 0.75 (pre-IFRS 7) and 0.78 (post-IFRS 7) with the disclosure categories. This result is consistent with the findings of Botosan (1997) and Hassan (2006b) who employed the same test to measure the internal consistency of their measures of disclosure; while Botosan (1997) documented a coefficient of 0.64, Hassan's (2006b) coefficient was 0.80.

[18] The results of correlation test show a positive and significant correlation between the level of FI disclosure and firm size with coefficients of 0.816 (pre-IFRS 7 and 0.723 (post-IFRS 7), profitability with coefficients of 0.686 (pre-IFRS) and 0.581(post-IFRS 7) and the auditor with coefficients of 0.584 (pre-IFRS 7) and 0.667 (post-IFRS 7) and p-values of less than 1%. On the other hand, there was a negative association between FI disclosure and industry with coefficients of -0.447 (pre-IFRS 7) and -0.459 (post-IFRS 7) and leverage with coefficients of -0.074 (pre-IFRS7) and -0.055 (post-IFRS7) and p-value of greater than 5%.

This section provides the results of analyzing the first hypothesis examined by the present paper which stated that "The proportion of Jordanian listed companies providing FI disclosure has increased significantly following the introduction of IFRS 7". Table 2 details the proportion of Jordanian listed companies disclosing FI-related information pre- and post- the implementation of IFRS 7 (by category) as well as the test of significance on the difference between these two (including both parametric and non-parametric measures). A visual inspection of Table 2 reveals that the implementation of IFRS 7 was associated with a growth in the number of companies supplying information within and across all disclosure categories. In general, the bottom row of Table 2 indicates that the mean (median) proportion of companies publishing FI information increased significantly after IFRS 7 was implemented; it grew from a mean (median) of 0.27 (0.24) pre-IFRS 7 to 0.49 (0.41) post-IFRS 7 with a t-value (z-value) of 6.449 (5.445) and a p-value of less than 0.05. A further analysis of Table 2 illustrates that the increase in the proportion of companies disclosing FI-related information was spread across all categories of FI disclosure. However, this growth was not consistent for each type of disclosure; there was a great deal of variation among FI disclosure categories. In particular, the FI-related accounting policies category accounted for the largest change; the mean (median) percentage of companies disclosing such information increased by 33% (37%) after IFRS 7 was adopted; this growth was statistically different with a t-value (z-value) of 4.292 (1.826) and p-values of less than 5%. On the other hand, FI-related hedge disclosures documented the smallest growth; the mean (median) proportion of companies publishing hedge information rose by just 12% (7%) after IFRS 7 was adopted although this growth was significant with a t-value (z-value) of 5.974 (2.689) and p-values of less than 1%. Moreover, Table 2 indicates that even though the fraction of companies publishing income statement information grew by 16%, this improvement was not significantly different from zero. Overall, the results presented in

Table 2 suggest that the introduction of IFRS 7 was not problematic since a larger number of firms complied with the requirements of the new standard. Specifically, IFRS 7 seems to have increased awareness among companies that FI-related disclosures were required; whereas compliance with IAS 30/32 had been less than fulsome. However, for some categories of disclosure (hedge disclosure and other disclosure) the percentage of companies complying with IFRS 7 is very low.

Insert Table 2 here

According to the results presented in Table 2, H1 is accepted. In particular, the introduction of IFRS 7 increased the number of firms providing FI disclosure. Specifically, IFRS 7 seems to have increased awareness among companies that FI-related disclosures were required; whereas compliance with IAS 30/32 had been less than fulsome. This change may be attributable to a number of factors. For instance, Jordanian listed companies may have complied with IFRS 7 because it was new and published by JACPA. Also, Jordanian companies are now familiar with IASB disclosure requirements as they applied IAS/IFRS since 1997 (Al-Akra et al., 2009), hence, the adoption of new accounting standards is no longer problematic for accounting preparers. In addition, the publicity accorded to IFRS 7 in the financial press (JSC, 2009) may have put further pressure on Jordanian firms to increase their risk disclosure disclosures. Indeed, the JSC was keen to show that Jordanian companies were in the lead in terms of compliance with new standards from the IASB in order to attract new (mainly foreign) investors into the Jordan economy (Mardini, 2012). Alternatively, the introduction of the new standards (IFRS 7) as well as the increasing usage of FIs by Jordanian listed companies over the last few years may have caused financial statement preparers to re-evaluate their FI disclosure practices (Tahat, 2013).

5.2 The Level of FI Disclosure Provided By Jordanian Listed Companies

This section provides the results of analyzing the second hypothesis examined by the present paper which stated that "The level of FI disclosure has increased significantly following the introduction of IFRS 7 compared to information provided previously by Jordanian listed companies". Table 3 examines the level of FI disclosure supplied by Jordanian listed companies pre- and post- IFRS 7; it investigates the number of FI-related items published by the sample firms and tests whether changes in the level of FI disclosure over the two periods are statistically significant. Table 3 shows the tests of significance for differences in the mean (median) number of disclosure items before and after the implementation of IFRS 7; this analysis is based on the actual items disclosed in the companies' annual reports.

As can be seen from Table 3, there is very strong evidence that the overall number of FI items provided under IFRS 7 increased significantly. Specifically, the bottom row of Table 3 reveals that the overall mean (median) number of items rose from 11 (10) beforehand to 19 (18) items after IFRS 7 became effective. The mean (median) difference of the overall number of items published was significantly different from zero; it had a t-value of 20.453 (z-value of 8.877) and p-values of less than 1%.

A number of points emerge from an analysis of Table 3. First, the pattern of growth in the overall number of FI items disclosed was spread across all the six sub-categories of the checklist. However, the amount of increase varied from one category to another. A visual inspection of the table reveals that *balance sheet* and *fair value* categories accounted for the largest significant increase with mean (median) differences of 2.0 (3.0) and 2.0 (2.0) items respectively; they had t-values of 16.40 and 20.00 (z-values of 7.65 and 7.70). On the other

hand, the smallest significant change was associated with the *other disclosures* category with a mean (median) difference of 0.0 (1.0) item which was significant at 1% level. In addition, the table reports that disclosure items relating to other sub-categories of FI information also increased significantly after IFRS 7 was implemented namely: accounting policies, income statement and hedge information; they all reported statistically positive and significant mean (median) differences (see Table 3). According to the results presented in Table 3, an objective of the standard setter seems to have been achieved with the adoption of IFRS 7; the users of the annual reports were provided with more and new information about companies' usage of FIs which may have been useful.

Insert Table 3 here

Based on the results in Table 3, H2 is accepted. Specifically, the users of the annual reports were provided with more and new information about companies' FI in the financial instruments which may have been useful. In addition to the introduction of IFRS 7, some institutional reforms in Jordan may have played a role in this increased disclosure. For instance, the open market policies as well as the economic reforms (e.g. privatization) initiated by the Government have led to an increase in the volume of foreign investment (Mardini, 2012). These changes in market conditions may have placed more pressure on preparers to meet the needs of foreign investors who are used to receiving a satisfactory level of such information in their home countries.

5.3 An Analysis of Financial Instruments Disclosure by Industrial Sector

This section provides the results of analyzing the third hypothesis examined by the present paper which stated that "There are significant differences in FI disclosures by Jordanian listed companies within and across sectors". A summary of the percentage disclosure index is shown for all sectors in Table 4 by disclosure category and sector. Panel A provides the

analysis before IFRS 7 became effective, while Panel B presents this analysis after IFRS 7 was implemented. An analysis of the bottom row of each panel in the table reveals that IFRS 7 was associated with a 17% increase in the overall percentage of FI-related items disclosed; it grew from 30% of items required to be disclosed pre-IFRS 7 to 47% of items required to be published after IFRS 7 was adopted. In general, the findings of the current study are consistent with the notion that the new accounting standard put pressure on companies to publish more information in order to meet the needs of financial statement users including capital market participants (Chalmers and Godfrey, 2004; Chalmers, 2001; Hamlen and Largay, 2005).

A more disaggregated analysis of Table 4 reveals that the percentage of FI items provided by banks went up from 44% pre-IFRS 7 to 69% after IFRS 7 was implemented. In terms of FI disclosure categories, Table 4 reveals that, prior to the implementation of IFRS 7, the *Balance Sheet* category was the most reported category among the banks with 74% (BS column) of balance sheet items being published by firms in this sector. On the other hand, after implementing IFRS 7, *Accounting Policies* was ranked first in terms of disclosure level with 98% of accounting policy items being disclosed in the banks' financial statements. The largest change among the disclosure categories for banks related to *Hedge Disclosures* which grew by 47% across all banks after the adoption of IFRS 7 (HD column). A further analysis of Table 4 indicates that all other categories of FI disclosure among banks increased but at different growth rates.

An inspection of Table 4 reveals that the overall results of the FI disclosure for companies in the financial sector increased from 27% of items pre-IFRS 7 to 45% of items post-IFRS 7. In contrast to the banks, Table 4 reveals that the *Fair Value* category recorded the

highest level of disclosure among the different categories over the two periods with 55% of fair value items being published pre-IFRS 7 and 81% of items being provided post-IFRS 7 (OVD column). On the other hand, *Hedge Disclosure* had the lowest level of FI disclosure among financial firms over the two periods; only 6% of the items in this category were published in the financial statements. In addition, Table 4 shows that all other categories of FI disclosure have grown by different rates i.e. *Accounting Policies* (39%), *Balance Sheet* (32%), and *Other Disclosures* (7%). Such a finding represents a valuable contribution to the literature in this area since the question of analysing disclosure for financial (non-banking) companies has been overlooked in most previous studies; prior research has focused either on banks, manufacturing firms and/or service companies. Although one might have expected that financial companies would follow the disclosure behaviour of banks because their activities are similar, the evidence in the current study suggests that this is not the case; disclosure practices about FIs among non-banking financial companies is much lower than the information provided by their counterparts in the banking industry.

Insert Table 4 here

With respect to the service sector, Table 4 reveals that, in general, the overall level of FI disclosure for companies in this industry increased to 44% of the items required under IFRS 7 as compared to 28% of items required under IAS 32. An analysis of Table 4 suggests that although all sub-categories of FI disclosure increased for service firms after IFRS 7 was implemented, the increase varied from one category to another. A visual inspection of this table reveals that the largest improvement was documented for the *Accounting Policies* category where an additional 31% of disclosure items were provided by companies in this sector in 2007. Not surprisingly, the smallest change was associated with the *Hedge Disclosure* category which grew by only 9% after IFRS 7 was adopted. In addition, Table 4 explains that *Balance Sheet* and *Fair Value* information had the highest

overall levels of disclosure among service companies over the two periods, with 58% and 57% of the items required under IAS 32 being published as compared to 75% and 82% of this information being disclosed after IFRS 7 became effective.

Finally, Table 4 displays findings about the level of FI disclosure supplied by manufacturing companies. A visual inspection of this table reveals that the overall level of FI disclosure for companies in this sector increased by 13% of items required to be published; it rose from 27% before IFRS 7 to 40% after IFRS 7 was implemented. A more disaggregated analysis of results in this sector reveals that *Accounting Policies* recorded the largest increase among all categories analysed with the number of *Accounting Policies*-related items provided by manufacturing companies growing by 28% after IFRS 7 was adopted. As with all of the other sectors, the smallest improvement was found in the *Hedge Disclosure* category which grew by just 3%. As with the services sector findings, Table 4 highlights that the *Fair Value* and *Balance Sheet* categories had the highest percentage of items disclosed over the two periods by manufacturing companies in the sample; they varied from 62% and 56% (pre-IFRS 7) to 81% and 76% (post-IFRS 7) respectively.

Table 5 reports the results of whether FI disclosure within each sector varied by a statistically significant amount; the table provides both the χ^2 (Chi-square) statistic for the Kruskal-Wallis test and F-statistic for the One-Way ANOVA test[19]. A visual inspection of the bottom row of Table 5 reveals that the mean (median) differences in the overall FI

[19] In order to test whether these changes in FI disclosure were significantly different within and across sectors, further statistical analysis was conducted. In particular, the Kruskal-Wallis test and its parametric equivalent, the One-Way ANOVA was used to determine whether sectoral changes that were uncovered were similar. In order to determine whether the equal-variance assumption underpinning the One-Way ANOVA was satisfied, *Levene's test for homogeneity of variance* was conducted for each of the two years; the results for Levene's test, which were not significant at the 5% level, indicated that the equal variance assumption for the industry type groups was approximately met for both years' information.

disclosure within sectors were significant pre- and post- the implementation of IFRS 7; the χ^2 values were 18.86 and 26.10 (the F- Statistic was 9.50 and 33.30) for the disclosure index values before and after the implementation of IFRS 7, respectively; all statistics had p-values of less than 1%. These statistics represent very strong evidence that the overall number of FI items disclosed was significantly different within sectors. However, this pattern was not consistent across all categories of FI disclosure. For example, while the mean (median) differences associated with *Balance Sheet* were significant with a χ^2 value of 33.31 (F-statistic of 16.40) and p-value of 1% pre-IFRS 7, these differences were not significant within sectors after IFRS 7 was adopted; they had a χ^2 value of 4.57 (F-Statistic of 1.50) and a p-value of over 0.20. Table 5 also shows that the mean (median) differences of *Fair Value* information was not significantly different within sectors post the implementation of IFRS 7 with a χ^2 value of 7.60 (F- Statistic of 2.30) and p-values greater than 0.05 as compared to significant differences beforehand. Importantly, the industrial analysis of FI disclosure pre- and post- the implementation of IFRS 7 has revealed specific aspects of usefulness. In particular, the analysis relating to *Balance Sheet* and *Fair Value* suggests that the new standard enhanced the comparability of such information within sectors. Prior to IFRS 7, different accounting standards were applied to both financial and non-financial institutions; while the former applied IAS 30, the latter adopted IAS 32. By contrast, IFRS 7 is applied by all companies irrespective of their industrial affiliation. This result suggests that more Jordanian listed companies complied with *Balance Sheet* and *Fair Value* disclosure requirements than with other categories of information mandated about FIs[20]. Hence, financial statements are likely to have increased comparability after the implementation of this standard.

[20] The study also performs the test of significance of FI disclosure across industries using the *Bonferroni* test; this test explores whether or not all sectors behaved in a similar fashion pre-and post-IFSR 7. For example, while there were significant differences between the overall disclosure of FI items between banks and the other three sectors (financial, services and manufacturing companies) with a p-value of less than 1%, there

Insert Table 5 here

According to the results provided in Table 4 and Table 5, H3 is approved. The industrial analysis of FI-related disclosure revealed that the highest level of FI disclosure was provided by firms in the banking sector over the two periods. Other sectors provided slightly lower proportions of FI disclosures. This result is consistent with previous studies in the corporate disclosure literature which have pointed out that banks tend to provide a larger volume of information as compared to other sectors; presumably because banks are more likely to use FIs, employ the most sophisticated information systems, have enough resources to produce the information required and hire auditors from the Big Four firms who require such information to be published in order to avoid a qualified audit report (Owusu-Anash, 1998; Hossain, 2000; Akhtaruddin, 2005).

In addition, the industrial analysis of FI disclosure revealed specific aspects of usefulness. In particular, some components of FI disclosure (*Balance Sheet* and *Fair Value*) showed no significant differences within and across sectors post the implementation of IFRS 7 suggesting that the new standard may have enhanced the comparability of such information regarding these categories. Prior to IFRS 7, different accounting standards were applied to both financial and non-financial institutions; while the former applied IAS 30, the latter adopted IAS 32. By contrast, IFRS 7 is applied by all companies irrespective of their industrial affiliation. Certainly, the comparability attribute has been emphasised by both the

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were no significant differences across the other three sectors; the p-values for financial, services and manufacturing industries were all greater than 5%. However, this pattern of sectoral disclosure was not consistent across all sub-categories of FI disclosure; while some categories were significantly different across all sectors, others were not. For example, there were significant differences across sectors in the *Balance Sheet* category pre-IFRS 7, it was not significantly different across sectors after IFRS 7 was adopted. In another example, while *Fair Value* information was significantly different across all sectors pre-IFRS 7, there were no significant differences in this information post-IFRS 7. These results imply that the implementation of IFRS 7 improved the comparability of financial statements across sectors with regard to these categories.

accounting literature (Staubus, 1976; Pownall and Schipper, 1999) and the accounting standard-setters (including the IASB and the FASB) as one of the basic qualitative characteristics necessary for accounting information to be considered useful (Whittington, 2008a, b).

6. Conclusion

This paper examines FI disclosure provided by Jordanian listed companies pre- and post- the implementation of IFRS 7. In general, evidence is provided about the positive impact of IFRS 7 on FI disclosure supplied by Jordanian listed firms. In particular, the study finds that a larger number of Jordanian listed companies provided a greater level of FI-related information after IFRS 7 was implemented. Specifically, the sample firms provided 47% of the disclosure index items after implementing IFRS 7 as compared to 30% under IAS 30/32. In addition, the industrial analysis of FI disclosure revealed that the highest level of disclosure was provided by firms in the banking sector over the two periods; these companies disclosed 44% of FI-related items pre-IFRS 7 and 69% of items post-IFRS 7. Moreover, the industrial analysis of FI disclosure pre- and post- the implementation of IFRS 7 revealed specific aspects of usefulness. In particular, some components of FI disclosure (*Balance Sheet* and *Fair Value*) showed no significant differences within and across sectors post the implementation of IFRS 7 suggesting that the new standard may have enhanced the comparability of such information.

The results of the current study have a number of implications for policy-makers. First, the findings of the present paper provide a great deal of insight for the IASB about the relevance of its standards throughout the world. Indeed, the current study provides valuable

evidence about how an emerging capital market such as Jordan (outside the Western context which previous studies mainly cover) with different contextual settings responds to new accounting standards introduced. This insight can help the IASB to consider institutional differences among countries when revising its pronouncements. For instance, the relatively low degree of compliance with FI disclosure requirements after IFRS 7 was implemented (47%) may be due to cultural factors such as prevalence for secrecy among Jordanian managers. This influential characteristic of Jordanian society may have led the management (preparers) of Jordanian listed companies to publish less information about FIs than might have been disclosed in more open societies.

Second, the results provide timely findings to Jordanian authorities who may be trying to evaluate the current reforms adopted; stringent enforcement mechanisms are needed to ensure full compliance with accounting standards. Hence, the findings provide valuable insights for policy-makers in Jordan who are concerned about the implications of mandatory disclosures and show to what extent Jordanian listed companies comply with accounting regulation in general, and an accounting standard such as IFRS 7 in particular. For example, given the relatively low level of risk disclosure provided by Jordanian listed companies in the current study, regulatory bodies may be concerned about whether investors who rely on financial statements have enough information about their investee companies.

This study is the first comprehensive investigation about the extent to which Jordanian listed companies comply with the new accounting standards enacted; however it has a number of limitations. First, this study has only investigated the impact of IFRS 7 on risk disclosure for the first year of its adoption in the financial statements of Jordanian listed companies in 2007. Hence, an analysis of data from subsequent years would be needed

before any trends can be confirmed. Specifically, companies may need some time in order for any worries to dissipate about being placed at a competitive disadvantage by IFRS 7 disclosures. Second, the present investigation was conducted on a single nation (Jordan); the circumstances in Jordan gave rise to the importance of the current study. However, this uniqueness obviously limits the extent of any generalisability among the findings. Thus, a cross-country comparative analysis is needed in order to examine the application of IFRS 7 in a developing country context. Finally, neither determinants of risk disclosure nor the capital market impact of IFRS 7 were addressed by the current study. The results of the current study provides a great deal of motivation for future research in these areas as the adoption of IFRS 7 was associated with a significant increase in the level of FI disclosure provided by Jordanian listed companies. Theoretically, connections between the extent of FI disclosure, firm characteristics and the capital market should be examined in the first-time adoption of the standard.

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Table 1: Key Features of Extant Empirical Studies on FI Disclosure in Developed Countries

Author (s)	Method	Sample Size	Standard	Industry
Panel A: Studies on FI disclosure Standards in the US				
Goldberg et al. (1994)	Content analysis	438	SFAS 105	FNF
Goldberg et al. (1998)	Content analysis	104	SFAS 105/107	FNF
Palmer and Schwarz (1995)	Content analysis	35	SFAS 105	Banking
Mahoney and Kawamura (1995)	Content analysis	65	SFAS 119	FNF
Edwards and Eller (1995)	Content analysis	10	SFAS 119	Banking
Kawamura (1996)	Content analysis	75	SFAS 119	FNF
Herz et al. (1996)	Questionnaire/ 10-K filing	67/78	SFAS 119	NF
Hodder et al. (2002)	Content analysis	230	SFAS 115	Banking
Bhamornsiri and Schroeder (2004)	Content analysis	30	SFAS 133	FNF
Hamlen and Largay (2005)	Content analysis	30	SFAS 133	Industrial
Panel B: Studies on FI Disclosure Standards in the UK				
Woods and Marginson (2004)	Content analysis	9	FRS 13	Banking
Dunne et al. (2004)	Content analysis	78	FRS 13	NF
Bamber and McMeeking (2010)	Content analysis	100	IFRS 7	NF
Panel C: Studies on FI Disclosure Standards in New Zealand and Australia				
Berkman et al. (1997)	Content analysis	116/195*	ED-65 and FRS-31	FNF
Chalmers and Godfrey (2000)	Questionnaire	150	AASB-1033	FNF
Chalmers (2001)	Disclosure index	140	AASB-1033	FNF
Hassan et al. (2006a)	Disclosure index	137	AASB-1033	Industrail

Panel D: studies on FI disclosure standards in other EU Countries				
Lopes and Rodrigues (2006)	Disclosure index	55	IAS 32/39	FNF
Lopes and Rodrigues (2008)	Disclosure index	50	IAS 32/39	FNF
Bischof [2009)	Content analysis	171	IFRS 7	Banking
Gebhardt (2012)	Content analysis	600	IFRS 7 and IAS 39	NF
Panel D: studies on FI disclosure standards in Developing Countries				
Hassan et al. (2006b)	Disclosure Index			
Strouhal (2009)	Content Analysis			
Rahahleh and Siem (2009)	Questionnaire Survey			
Murcia and Santos (2010)	Content Analysis			

Notes**:** This table shows empirical studies that have investigated the accounting standards concerning FIs. FNF: Financial and Non-Financial Firms, * this is a comparative study between New Zealand (106 firms) and Australia (195).

Table 2: The Proportion of Jordanian Listed Firms Disclosing Items of FI Information: 2006 and 2007

FI Disclosure Categories	Pre-IFRS 7 Mean %	Post-IFRS 7 Mean%	Mean Difference %	Paired-Samples t-Test	Pre-IFRS 7 Median %	Post-IFRS 7 Median%	Median Difference %	Wilcoxon Signed Test
Accounting Policies of FI	41	74	33	4.292*	41	78	37	1.826*
Balance Sheet	48	78	30	2.826*	63	88	25	2.326*
Income Statement	38	54	16	1.835	35	71	36	2.214
Hedge Disclosures	04	16	12	5.974**	2	11	7	2.689**
Fair Value	59	90	31	2.161*	72	100	28	2.023*
Other Disclosures	02	15	12	4.275**	3	15	12	2.384**
Overall FI Disclosure	27	49	22	6.449**	24	41	37	5.445**

This table shows the proportion of Jordanian listed companies publishing FI disclosure pre- and post- the implementation of IFRS 7 as well as tests for significance differences. * indicates 5% significance level and ** refers to 1% significance level

Table 3: Tests of Significance among Median and Mean Differences in Items Disclosed for FI Categories Pre-and-Post IFRS 7

Categories of FI Disclosure	Wilcoxon Signed Test					Paired-Samples t-Test				
	Pre-IFRS 7 Medians	Post-IFRS 7 Medians	Medians Difference	Z-value	p-value	Pre-IFRS 7 Means	Post-IFRS 7 Means	Means Difference	t-value	p-value
Accounting Policies	2.0	3.0	1.0	7.45*	0.000	2.0	3.0	1.0	15.50*	0.000
Balance Sheet	3.0	6.0	3.0	7.65*	0.000	4.0	6.0	2.0	16.40*	0.000
Income Statement	3.0	4.0	1.0	6.80*	0.000	2.0	3.0	1.0	09.50*	0.000
Hedge Accounting	0.0	0.0	0.0	4.75*	0.000	0.29	1.0	1.0	05.25*	0.000
Fair Value	3.0	5.0	2.0	7.70*	0.000	3.0	5.0	2.0	20.00*	0.000
Other Disclosures	0.0	0.0	0.0	4.65*	0.000	0.07	1.0	1.0	05.30*	0.000
Overall FI Disclosure	10	18	8	8.877	0.000	11.0	19.0	8.0	20.453	0.000

Notes: This table shows a comparison of FI items published pre-and post-the implementation of IFRS 7. Non-parametric and parametric measures are employed. An * indicates that values are significant at the 1% level. Medians and Means were calculated based on the actual number of disclosed items for each company.

Table 4: The Percentage of FI Disclosure Index Results for Jordanian Listed Companies by Sectors: 2006 and 2007

Sector	AP %	BS %	ISD %	HD %	FVD %	OD %	OVD %
Panel A: Pre-IFRS 7: 2006							
Banks	67	74	61	22	67	11	44
Financial services	38	46	42	01	55	1	27
Services	33	58	34	02	57	1	28
Manufacturing	37	56	24	01	62	0	27
Overall	41	57	38	04	59	2	30
Panel B: Post-IFRS 7: 2007							
Banks	98	86	76	69	93	52	69
Financial services	77	78	58	07	81	08	45
Services	64	75	54	11	82	12	44
Manufacturing	65	76	41	4	81	3	40
Overall	73	78	55	16	83	14	47

Notes: This table presents details about the proportion of Risk information by sector pre- and post- IFRS 7's implementation. AP refers to Accounting Policies Disclosures, BS refers to Balance Sheet Disclosures, ISD refers to Income Statement Disclosures, HD refers to Hedge Disclosures, FVD refers to Fair Value Disclosures, OD refers to Other Disclosures.

Table 5: Results from the Significance Tests for Differences in FI Items Disclosed Within Industrial Sectors Pre-and-Post IFRS 7

	Kruskal-Wallis Test						One-Way ANOVA					
FI Disclosure Categories	**Difference in Medians**				**Chi-Square**		**Difference in Means**				**F-Statistic**	
	BN	**FS**	**SR**	**MA**	**Pre-IFRS7**	**Post- IFRS7**	**BN**	**FS**	**SR**	**MA**	**Pre-IFRS7**	**Post- IFRS7**
Accounting Policies	1.5	1.5	1.0	1.5	22.12 (0.000)*	19.16 (0.000)*	1.25	1.54	1.23	1.16	13.5 (0.000)*	7.90 (0.000)*
Balance Sheet	2.0	3.0	2.5	2.0	33.31 (0.000)*	04.57 (0.206)	1.58	2.73	1.72	1.81	16.4 (0.000)*	1.50 (0.218)
Income Statement	1.0	1.0	1.5	1.0	34.62 (0.000)*	23.13 (0.000)*	0.91	0.96	1.16	0.96	17.8 (0.000)*	9.20 (0.000)*
Hedge	4.5	0	0	0	30.42 (0.000)*	32.09 (0.000)*	3.25	0.50	0.83	0.27	18.5 (0.000)*	33.5 (0.000)*
Fair Value	3.0	2.0	2.0	2.0	10.16 (0.017)*	07.60 (0.055)	2.25	2.08	2.11	1.77	3.00 (0.033)*	2.30 (0.086)
Other Disclosure	3.0	0	0	0	13.19 (0.004)*	40.10 (0.000)*	0.78	0.19	2.5	0.35	5.6 (0.002)*	27.0 (0.000)*
Overall FI Disclosure	15	7.5	7.0	6.5	18.26 (0.000)*	26.10 (0.000)*	10.02	8.0	9.55	6.32	9.5 (0.000)*	33.3 (0.000)*

Notes: This table shows the test of significance within sectors; a Kruskal-Wallis and a One Way ANOVA test were conducted. BN is banks, FS is financial services, SR is services, MA is manufacturing. * refers to where the difference is significant at the 1% level.

Appendix 1: The Disclosure Index

FI Disclosure Requirements Based on IFRS 7			
No.	**Categories/Items**	**No.**	**(v) Information on Cash Flow Hedge (CFH)**
	(i) Accounting Policies	23	Gains or losses on CFH associated with FIs
1	The nature of FIs	24	Period when CFH are expected to occur and affect profit or loss
2	Terms and conditions for FI designation	25	Forecast transaction for which hedge can be used
3	Recognition and measurement of FI	26	Amount recognised/removed in/from equity during the period
4	Terms and conditions of impairment about FI		**(vi) Fair Value Disclosure about FI**
	(ii) Balance Sheet Disclosure about FI	27	Measurement methods
5	FI at fair value (FV) through profit or loss - held for trading	28	Information if FV cannot be measured
6	FI at FV through profit or loss – designated	29	Fair values for each class of FI
7	Held-to-maturity investments	30	Changes in FV of FI
8	Available-for-sale financial assets	31	Comparable carrying amounts*
9	Loans and receivables	32	Amount recognised/removed in/from equity
10	Financial liabilities measured at amortised cost		**(x) Other Disclosures about FI**
11	The carrying amounts of each class of FI*	33	Information on Reclassification
	(iii) Income Statement Disclosures about FI	34	Information on Derecognition
12	Net gains/losses by classes of FI	35	FI pledged as Collateral
13	Interest income associated with FI	36	Allowances account for credit losses
14	Interest expense associated with FI	37	Compound FI
15	Fee income associated with FI	38	Defaults and Breaches
16	Interest income on impaired FI	39	FI either past due or impaired*
17	Impairment losses associated with FI		
	(iv) Hedge Disclosures about FI		
18	Description of each type of hedge associated with FI		
19	FI designated as hedging instruments and their FV		
20	Nature of risks being hedged associated with FI		
21	Recognised gains/losses on hedge ineffectiveness associated with FI*		
22	For FV hedge: gains or losses on hedging instruments		

Note: * indicates those items that were required for the first time under IFRS 7, whereas the absence of an * indicates that an item had been required under IAS 30/32.